

108TH CONGRESS
1ST SESSION

H. R. 2127

To amend the Internal Revenue Code of 1986 to repeal tax benefits relating to company-owned life insurance.

IN THE HOUSE OF REPRESENTATIVES

MAY 15, 2003

Mr. EMANUEL (for himself, Mr. FRANKS of Arizona, Mr. GREEN of Texas, Mr. HINCHEY, Mr. PAYNE, Mr. RYAN of Ohio, Mr. GRIJALVA, Mr. MARKEY, Ms. DELAURO, Mr. FROST, Mr. LANTOS, Ms. KILPATRICK, Mr. DEFAZIO, Ms. LEE, and Mr. SMITH of Washington) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Energy and Commerce, and Education and the Workforce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to repeal tax benefits relating to company-owned life insurance.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Taxpayer Savings and
5 Employee Notification Act of 2003”.

1 **SEC. 2. REPEAL TAX BENEFITS RELATING TO COMPANY-**
2 **OWNED LIFE INSURANCE.**

3 (a) INCLUSION OF LIFE INSURANCE INVESTMENT
4 GAINS.—Section 72 of the Internal Revenue Code of 1986
5 (relating to annuities; certain proceeds of endowment and
6 life insurance contracts) is amended by inserting after
7 subsection (j) the following new subsection:

8 “(k) TREATMENT OF NONQUALIFIED COMPANY-
9 OWNED LIFE INSURANCE CONTRACTS.—

10 “(1) IN GENERAL.—In the case of a non-
11 qualified company-owned life insurance contract, the
12 income on the contract (as determined under section
13 7702(g)) for any taxable year shall be includible in
14 gross income for such year.

15 “(2) NONQUALIFIED COMPANY-OWNED LIFE IN-
16 SURANCE CONTRACT.—For the purposes of para-
17 graph (1)—

18 “(A) IN GENERAL.—The term ‘non-
19 qualified company-owned life insurance con-
20 tract’ means any life insurance policy or endow-
21 ment contract held by any entity engaged in a
22 trade or business.

23 “(B) EXCEPTIONS.—Such term shall not
24 include—

1 “(i) any policy or contract covering
2 the life solely of individuals who are key
3 persons (as defined in section 264(e)(3)),

4 “(ii) any contract which is acquired by
5 the estate of a decedent by reason of the
6 death of the decedent,

7 “(iii) any contract which is held under
8 a plan described in section 401(a) or
9 403(a), under a program described in sec-
10 tion 403(b), or under an individual retire-
11 ment plan,

12 “(iv) any contract which is a qualified
13 funding asset (as defined in section
14 130(d), but without regard to whether
15 there is a qualified assignment), and

16 “(v) any contract which is purchased
17 by an employer upon the termination of a
18 plan described in section 401(a) or 403(a)
19 and is held by the employer until all
20 amounts under such contract are distrib-
21 uted to the employee for whom such con-
22 tract was purchased or the employee’s ben-
23 eficiary.

24 “(C) CONTRACTS HELD BY NATURAL PER-
25 SONS, PARTNERSHIPS, AND S CORPORATIONS.—

1 Rules similar to the rules of section 264(f)(5)
2 shall apply.”.

3 (b) REPEAL OF EXCLUSION FOR DEATH BENE-
4 FITS.—Section 101 of such Code (relating to certain death
5 benefits) is amended by adding at the end the following
6 new subsection:

7 “(j) PROCEEDS OF NONQUALIFIED COMPANY-
8 OWNED LIFE INSURANCE.—Notwithstanding any other
9 provision of this section, there shall be included in gross
10 income amounts received under a nonqualified company-
11 owned life insurance contract (as defined in section 72(k))
12 to the extent that such amounts exceed the sum of—

13 “(1) the income on the contract (as determined
14 under section 7702(g)) which as been previously in-
15 cluded in income, plus

16 “(2) the premiums paid (as defined in section
17 7702(f)(1)) under the contract.

18 Amounts included in gross income under the preceding
19 sentence shall be so included under section 72.”.

20 (c) INFORMATION REPORTING.—Section 6047 of
21 such Code (relating to information relating to certain
22 trusts and annuity plans) is amended by redesignating
23 subsection (g) as subsection (h) and by inserting after
24 subsection (f) the following new subsection:

1 “(g) NONQUALIFIED COMPANY-OWNED LIFE INSUR-
2 ANCE CONTRACTS.—The Secretary shall require the issuer
3 of nonqualified company-owned life insurance contracts to
4 make such returns and reports regarding such contracts
5 (as defined in section 72(k)) to the Secretary, beneficiaries
6 of such contracts, and such other persons as the Secretary
7 may prescribe.”.

8 (d) REDUCTION IN PUBLIC DEBT.—The increase in
9 Federal receipts in the United States Treasury by reason
10 of the amendments made by this section shall be used sole-
11 ly for reduction of the public debt and for such purpose
12 the Secretary of the Treasury shall deposit an amount
13 equal to such receipts in the account established under
14 section 3113 of title 31, United States Code.

15 (e) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to contracts entered into after the
17 date of the enactment of this Act.

18 **SEC. 3. DISCLOSURE.**

19 (a) IN GENERAL.—Not later than 60 days before the
20 date of purchase of a nonqualified company-owned life in-
21 surance contract (as defined by section 72(k) of the Inter-
22 nal Revenue Code of 1986) by an entity on one or more
23 of its employees, the entity shall provide to each such em-
24 ployee a written disclosure that shall contain the following
25 information:

1 (1) A statement that the company plans to pur-
2 chase such contract on the life of the employee.

3 (2) The identity of the insurance carrier with
4 respect to such contract.

5 (3) The amount of the benefit under such con-
6 tract.

7 (4) The name of the beneficiary under such
8 contract.

9 (b) OBJECTION TO PURCHASE OF CONTRACT.—If
10 such employee notifies such entity in writing before the
11 date of purchase of such contract that the employee ob-
12 jects to the purchase, then the entity shall not purchase
13 the contract.

14 (c) ENFORCEMENT.—

15 (1) UNFAIR OR DECEPTIVE ACT OR PRAC-
16 TICE.—A violation of either subsection (a) or (b)
17 shall be treated as a violation of a rule defining an
18 unfair or deceptive act or practice prescribed under
19 section 18(a)(1)(B) of the Federal Trade Commis-
20 sion Act (15 U.S.C. 57a(a)(1)(B)).

21 (2) ACTIONS BY THE FEDERAL TRADE COMMIS-
22 SION.—The Federal Trade Commission shall enforce
23 this section in the same manner, by the same means,
24 and with the same jurisdiction, powers, and duties
25 as though all applicable terms and provisions of the

1 Federal Trade Commission Act (15 U.S.C. 41 et
2 seq.) were incorporated into and made a part of this
3 Act.

4 (d) EFFECTIVE DATE.—This section shall apply to
5 contracts entered into after the date of the enactment of
6 this Act.

7 **SEC. 4. RULE OF CONSTRUCTION.**

8 Nothing in this Act, or the amendments made by this
9 Act, shall be construed to affect any case in controversy,
10 or any investigation by the Secretary of the Treasury, re-
11 lating to any leveraged company-owned life insurance con-
12 tract entered into on or before the date of the enactment
13 of this Act.

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